ANNUAL REPORT

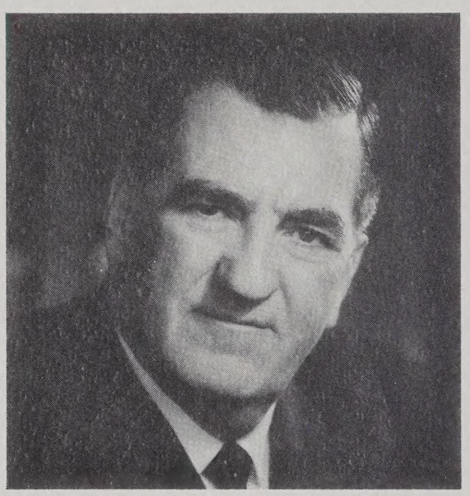
FOR THE YEAR ENDED APRIL 30, 1968

BECKER'S

HIGHLIGHTS OF THE YEAR

	Year ended April 30 1968	1967	Percentage change
Sales	$34,511,342	$27,150,658	+ 27.1
Operating earnings	2,189,374	1,707,740	+ 28.2
Net earnings	796,573	625,445	+ 27.4
Earnings per share	0.45	0.35	+ 28.6
Long term debt	954,835	942,808	
Shareholders' equity	3,275,963	2,507,840	
Shares outstanding			
– Class A	5,675	5,675	
– Class B	1,162,950	1,162,250	
– Common	540,750	540,750	
Number of stores	201	156	
Number of employees	948	799	

DIRECTORS REPORT



FRANK A. BAZOS
Chairman of the Board

ROBERT W. LOWE
President

TO THE SHAREHOLDERS:

The fiscal year ending April 30th, 1968 was a special year for your company. With a successfull ten year history behind it, we began the first full year as a public company with the expectation that our opportunities were actually expanding and that continued excellent growth could be achieved if Becker's resources were fully committed. With this potential in mind, by the end of April, capital expenditures totalled $1,973,365 and

1. the dairy capacity had been expanded with equipment as modern and practical as we could possibly obtain.
2. warehousing facilities were being built so that tobacco products could be purchased directly from the manufacturers.
3. the new store program was stepped up to add 45 new stores – a total approaching the additions of the previous two years combined.
4. additional office facilities were being built to anticipate the needs of an enlarging administrative staff.

Considering the delays caused by strikes in the construction industry and the inevitable annoyance of dislocations during expansion, the staff deserves special credit for successfully meeting the demands of the growing business.

Sales were $34,511,342 — an increase of 27% over last year and profit margins were maintained to yield earnings per share of 45¢ — an increase of 28%. These results were particularly gratifying as we had to absorb the costs of unusually heavy expansion and construction delays prevented many store openings until the latter half of the year.

By the year end 201 Becker's stores were in operation and the Company was pleased to welcome many new customers who could benefit from our policy of offering those frequently purchased food items such as milk and bread, at the lowest possible price consistent with the highest quality standards and at convenient location and store hours.

During the year, Becker's reluctantly raised the price of milk because of rising operating costs so prevalent in industry today. Despite these increases we are still able to live up to our stated policy that "Becker's holds the price of milk down" through efficient distribution. Our overall increase was only 75% of the initial general increase in our marketing area. Our competitors subsequently met our price, proving that your company is a price leader in its market. We continue to take satisfaction from knowing that wherever Becker's is located, milk prices remain substantially lower than in areas not yet served by Becker's. Your company, during the year, also had its attention diverted to two subjects associated with Provincial government matters. The Ontario Retail Sales Tax Department assessed the Company for an amount that could reduce our retained earnings by approximately $82,600. We are vigorously contesting this assessment as we feel that more precise tax collecting guidelines are necessary so as to carry out our responsibility and at the same time prevent such assessment possibilities in the future. Secondly, we continue to object to the present restrictions on the distribution of milk, which in our opinion, if removed, would further speed our efforts to bring the advantages of lower milk prices into new areas.

In looking ahead, we expect much progress before the next annual report. The prospects of utilizing last year's large additions of both new processing and distribution facilities, combined with continued hard efforts by the staff, places us in a position to effectively operate within an environment of increasing competition. This year's expansion will concentrate on new store openings and the importance of our expanded manager training program will become very evident. We expect to open approximately 50 new stores and capital expenditures for leasehold improvements and equipment in these new stores as well as the renovation of existing stores should total approximately $1.3 million. We are confident that continued growth in sales and profits will be achieved. Our success however is measured by our customers and wherever possible, we hope that the shareholders will patronize their local Becker's store and introduce their friends to the convenience, product quality and price conscious service, which all of us here at Becker's strive to provide.

Sincerely,

Frank. A. Bagg

Chairman of the Board

R.W. Lowe

President

FINANCIAL STATEMENTS

THE BECKER MILK COMPANY LIMITED AND SUBSIDIARY COMPANY

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED APRIL 30, 1968

	1968	1967
	$	$
Sales	34,511,342	27,150,658
Cost of goods sold	25,730,458	20,323,773
Gross profit	8,780,884	6,826,885
Operating expenses	6,591,510	5,119,145
Earnings before depreciation and amortization, interest charges and taxes on income	2,189,374	1,707,740
Depreciation and amortization (Note 8)	483,576	395,838
Interest charges	51,562	30,038
Taxes on income (Note 8)	857,663	656,419
Net earnings for the year	796,573	625,445

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED APRIL 30, 1968

	1968	1967
	$	$
Balance beginning of year	1,327,379	726,716
Net earnings for the year	796,573	625,445
	2,123,952	1,352,161
Dividends paid on class A shares (Note 7)	34,050	22,700
Cost of supplementary letters patent	—	2,082
	34,050	24,782
Balance end of year	2,089,902	1,327,379

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE YEAR ENDED APRIL 30, 1968

	1968	1967
	$	$
Source of Funds		
Operations		
Net earnings for the year	796,573	625,445
Charges not requiring cash outlays:		
Depreciation and amortization	483,576	395,838
Deferred income taxes	62,737	(5,083)
	1,342,886	1,016,200
Other		
Issue of 6½% First mortgage bonds	—	475,000
Issue of class B shares	5,600	611,125
Increase in manager bond deposits	52,625	49,550
Increase in mortgages payable	58,910	13,000
Decrease in chattel mortgage receivable	—	8,823
	1,460,021	2,173,698
Use of Funds		
Purchase of fixed assets (net of disposals) and progress draw payments	2,161,760	949,202
Dividends paid on class A shares	34,050	22,700
Increase (decrease) in investment in associated company	(9,985)	58,163
Increase (decrease) in Federal refundable tax	(26,076)	44,000
Payment of long-term equipment instalments	9,508	38,400
Increase in rent deposits and deferred finance charges	65	84
Principal payment of 6½% First mortgage bond	90,000	—
Increase (decrease) in financing expenses	(23,578)	23,578
Fees re supplementary letters patent	—	2,082
	2,235,744	1,138,209
Increase (decrease) in working capital	(775,723)	1,035,489
Working capital at end of year	(303,576)	472,147
Working capital at beginning of year	472,147	(563,342)
Increase (decrease) in working capital	(775,723)	1,035,489

CONSOLIDATED

AS AT AP

(With Comparati

ASSETS

	1968	1967
	$	$
Current Assets		
Cash	177,100	36,301
Store managers' accounts and sundry accounts receivable	175,389	117,568
Subscription receivable	—	610,000
Advances to employees	1,108	4,579
Chattel mortgage receivable — due within one year	—	8,823
Inventories —		
Plant, at lower of cost or net realizable value	358,254	275,322
Stores, at lower of cost or net realizable value less normal profit margin	1,628,521	1,082,235
Prepaid expenses and deposits	173,984	112,586
Federal refundable tax — due within one year	24,000	—
	2,538,356	2,247,414
Investment in Associated Company (Note 2)		
Shares — at cost	50,050	50,050
Advances	28,518	38,503
	78,568	88,553
Fixed Assets		
Assets — at cost	6,225,719	4,304,276
Less: Accumulated depreciation and amortization	1,791,246	1,359,592
	4,434,473	2,944,684
Other Assets		
Rent deposits and deferred finance charges, less amortization	11,493	11,428
Financing expenses	—	23,578
Federal refundable tax — due after one year	17,924	44,000
Progress draws on office and warehouse extension (Note 12)	260,028	71,633
	289,445	150,639
	7,340,842	5,431,290

Approved on behalf of the Board:

Frank. A. Baggs

Director

R W Law

Director

The accompanying notes are an integral part of the consolidated financial statements.

BALANCE SHEET

IL 30, 1968

Figures for 1967)

LIABILITIES

	1968	1967
	$	$
Current Liabilities		
Accounts payable and accrued expenses	2,362,088	1,509,252
Equipment instalments — due within one year	9,700	38,627
Income and other taxes payable	354,190	227,238
Due to directors	—	150
6½% First mortgage bonds (Note 3)	90,000	—
Mortgages payable — due within one year	25,954	—
	2,841,932	1,775,267
Long-Term Liabilities		
Managers' bond deposits	196,025	143,400
Equipment instalments — due after one year	1,900	11,408
6½% First mortgage bonds (Note 3)	635,000	725,000
6% Series B debentures (Note 4)	50,000	50,000
Sundry mortgages (Note 5)	71,910	13,000
	954,835	942,808
Deferred Income Taxes (Note 8)	268,112	205,375

SHAREHOLDERS' EQUITY

Share Capital

Authorized —

8,000 — 6% cumulative class A preference shares with a par value of $100 each, redeemable at par

2,459,250 — non-voting, non-cumulative, participating class B preference shares without par value

640,750 — common shares without par value

	1968	1967
Issued and Fully Paid (Note 6)		
5,675 — class A shares (last year 5,675)	567,500	567,500
1,162,950 — class B shares (last year 1,162,250)	618,273	612,673
540,750 — common shares (last year 540,750)	288	288
	1,186,061	1,180,461
Retained Earnings (Note 7)	2,089,902	1,327,379
	3,275,963	2,507,840
	7,340,842	5,431,290

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AT APRIL 30, 1968

1. BASIS OF CONSOLIDATION

The accounts of the only subsidiary company have been included in the consolidation from the date of its acquisition.

2. INVESTMENT IN ASSOCIATED COMPANY

Euclid Securities Limited has guaranteed the repayment to the Company of amounts due from the associated company and has also agreed to purchase for their cost the shares in the associated company, should the equity of the Company in the net assets of the associated company be less than $50,000 as at August 31, 1969.

3. 6½% FIRST MORTGAGE BONDS

The bonds are secured by a first charge on the property, building and equipment at 671 Warden Avenue, Scarborough, Ontario, and a floating charge on all other assets of the Company.

These bonds mature $90,000 annually on May 1, 1968 to 1974 inclusive and $95,000 on May 1, 1975.

The Company has the right to redeem these bonds in reverse order of maturity at the following percentages of the principal amount thereof, plus accrued interest:

103 % if redeemed on or before May 1, 1969
102½% if redeemed on or before May 1, 1970
102 % if redeemed on or before May 1, 1971
101½% if redeemed on or before May 1, 1972
101 % if redeemed on or before May 1, 1973
100½% if redeemed on or before May 1, 1974
100 % thereafter.

Under the terms of the trust deed securing these bonds the Company cannot pay dividends on any class of shares nor redeem any shares of any class where the affect of such payment would be to reduce the aggregate of the capital and retained earnings of the Company below $368,000.

4. 6% SERIES B DEBENTURES

These debentures are secured by a floating charge on the assets of the Company, which charge has been postponed in favour of the 6½% First mortgage bonds and the Debentures referred to in Note 9. The holders of the Series B debentures have agreed to the repayment of the principal amount thereof being postponed until the 6½% First mortgage bonds have been repaid.

5. SUNDRY MORTGAGES

This amount covers 5 mortgages on property purchased for retail store locations. The principal amounts mature up to 1978 with various interest rates not exceeding 9% per annum.

6. SHARE CAPITAL

During the year 700 non-voting class B shares were issued at a price of $8.00 per share to employees.

7. DIVIDENDS

On December 31, 1967, the Company declared a dividend of $6.00 per share on its class A shares, being the dividend accruing from January 1, 1967 to December 31, 1967 and this dividend, amounting to a total of $34,050, was paid on January 2, 1968.

8. DEPRECIATION

Depreciation has been calculated in accordance with the Company's established policy of amortizing the depreciable properties over the estimated useful life of each of such properties, with the exception of trucks and automobiles. Trucks and automobiles have been depreciated at maximum normal rates permitted by regulation under the Canada Income Tax Act. The policy of the Company is to claim for income tax purposes maximum capital cost allowances permitted by regulation under the Canada Income Tax Act. As a result of this policy, depreciation recorded in the accounts will be $515,600 less than depreciation claimed for tax purposes, with a consequent reduction of income taxes payable of $268,112. This reduction is considered to be applicable to future years when depreciation recorded in the accounts will exceed that which may be claimed for tax purposes and is, therefore, shown in the balance sheet as deferred income taxes.

9. FLOATING CHARGE DEBENTURES

$450,000 principal amount of debentures of the Company, due on demand and secured by a floating charge, are lodged with the Company's bankers as collateral security for loans outstanding from time to time.

10. REMUNERATION OF DIRECTORS AND OFFICERS

Expenses include $86,510 (last year $73,900) for remuneration of directors and officers. There were no fees paid during the year.

11. LEASES

The minimum annual rentals payable (excluding insurance, property taxes and certain other occupancy charges) under the lease obligations for store locations amount to $723,031.

The total minimum rental liability under leases (excluding insurance, property taxes and certain other occupancy charges) to the date of expiry or option, whichever occurs first, amounts to $5,162,633.

12. PROGRESS DRAWS

An office and warehouse addition is presently under construction which will cost approximately $310,000 of which $260,028 has already been paid and included in the accounts as at April 30, 1968.

13. CONTINGENT LIABILITY

The Company is presently contesting an assessment, for the 3½ years ended April 30, 1968, by the Ontario Retail Sales Tax Department which, if unsuccessful, would reduce the retained earnings as at April 30, 1968 in the approximate amount of $82,600.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Becker Milk Company Limited and its subsidiary company as at April 30, 1968, and the consolidated statements of earnings, retained earnings and source and use of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings, retained earnings and source and use of funds, present fairly the financial position of The Becker Milk Company Limited and its subsidiary company as at April 30, 1968, and the results of its operations for the year ended on that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Langlois, Hauck & Company

Chartered Accountants

June 28, 1968

PROGRESS DURING THE PAST TEN YEARS

YEAR ENDED APRIL 30

	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959
	$	$	$	$	$	$	$	$	$	$
Sales	34,511,342	27,150,658	19,966,503	14,917,766	10,621,311	6,837,097	4,533,586	2,418,502	1,394,460	818,954
Earnings before depreciation and amortization, interest and taxes on income	2,189,374	1,707,740	1,039,740	549,167	392,750	292,841	202,107	123,366	18,842	23,938
Depreciation and amortization (Note 1)	483,576	395,838	315,746	251,170	195,140	124,799	89,196	53,619	32,125	15,502
Interest	51,562	30,038	34,583	21,478	14,014	5,910	3,448	3,100	2,716	927
Taxes on income	857,663	656,419	352,646	137,747	92,850	77,718	47,651	5,203	—	—
Net earnings (loss)	796,573	625,445	336,765	138,772	90,746	84,414	61,812	61,444	(15,999)	7,509
Shareholders' equity (Note 2)	2,708,463	1,940,340	728,552	391,197	252,400	161,403	76,819	15,007	—	—
Shares outstanding (Note 2)	1,703,700	1,703,000	1,600,750	1,589,250	1,584,250	1,534,000	1,500,000	1,500,000	1,500,000	1,000,000
Net earnings per class B and common share (Note 3)	.45	.35	.21	.09	.06	.06	.04	.04	—	—
No. of stores (at end of fiscal year)	201	156	127	101	81	51	37	27	19	11
Net fixed asset additions	1,973,365	887,833	655,063	763,908	597,888	819,880	256,598	135,142	148,307	39,786

Notes: (1) Figures for all years have been adjusted to reflect current Company policy on depreciation and amortization.

(2) Combined Class "B" and Common.

(3) Figures for all years have been adjusted for the ten-for-one stock split of February 28, 1967. Net earnings per share have been adjusted to allow for the current year's Class "A" preference dividend. Dividends on Class "A" shares from January 1, 1968 to April 30, 1968 amounting to $11,350 have not been declared and or allowed in computing the shareholders' equity.

OPERATING REVIEW

SALES AND EARNINGS

Sales for the year ended April 30, 1968 increased by 27% to $34,511,342. This increase reflects the rising volume of business in both existing and new stores and product price increases. On May 24, 1967, the price of a three quart jug of milk was raised from 63¢ to 67¢ and again on April 17, 1968 another increase to 69¢ was necessary. These price increases result from the rising costs of milk from the producer and of transportation, labour and other services purchased by Becker's. As a result the gross profit margin of the Company increased over the previous year from 25.1% to 25.4% of sales, but because of the rising operating expenses, the operating profit margin only increased from 6.29% to 6.34% of sales. After allowing for increased depreciation, interest and corporate taxes, the net earnings margin on sales was maintained at the previous years level of 2.3% to give a net profit increase of 27%.

PROGRESS AT THE BECKER'S STORES

In practically every year since the Company began sales per store have increased. This is an important measure not only for the store managers but also for improving returns from your Company's fixed investment in these stores. This year, however the sales per store average of $171,698 does not accurately reveal the progress of your Company. The 2½ month construction strike earlier in the year resulted in an abnormal number of store openings in the final weeks of April, causing the above year end average figure to be greatly distorted. We feel that a more accurate assessment of progress can be made by just eliminating the store openings in April. The resulting sales per store figure shows a satisfactory increase over last years historical high of $174,034.

Of the 45 new stores opened 33 were in Toronto and the other 12 in the surrounding major centres of Hamilton, Oshawa and Brampton. These store openings resulted in a substantial capital investment in store equipment and leasehold improvements.

The Company's success will be measured by our customer's interest in shopping at a Becker's store and we continue to seek better ways to service our customer's needs. In this connection we began several new important programs during the year. Our personnel selection and store training program was improved. Changes in store layout and design were instituted in many stores. This was most clearly visible in new locations, many of which are approximately 25% larger and feature more convenient and attractive open refrigerated display equipment. These latter units utilize a centralized refrigeration system whereby lower maintenance costs can be realized. For customer comfort all stores are fully air conditioned. If quality and price benefits can be obtained for our customers, Becker's has instituted the packaging of its own brands of food products. During the year our own line of lunch meats and cheese were added; both receiving excellent reception by our customers.

PROGRESS IN PROCESSING AND DISTRIBUTION FACILITIES

A major portion of the capital expenditure was for a substantial increase in dairy production facilities, construction of new warehousing facilities for tobacco products and an increase in office space. The new dairy facilities are designed to meet the anticipated increase in demand for future market expansion. As a result of the commitment to a heavy expansion program, the net working capital position of the Company declined during the year. We feel that this decline was a temporary condition created from the capital expenditures necessary to meet the challenge of growth in the next several years.

Board of Directors

Frank A. Bazos	Chairman of the Board The Becker Milk Co. Ltd.
Robert W. Lowe	President The Becker Milk Co. Ltd.
Robert Bazos	President Perrette Dairy Limited
William H. Zimmerman	Queen's Counsel
E. S. Miles	Investment Dealer

Officers

Frank A. Bazos	Chairman of the Board
Robert W. Lowe	President
Robert Bazos	Vice-President
Geoffrey W. J. Pottow	Vice-President
William H. Zimmerman	Secretary
Arvi Magi	Treasurer

Registrar and Transfer Agent

The Royal Trust Company — Toronto and Montreal

Auditors

Langlois, Hauck & Company — Toronto

Solicitors

Zimmerman & Winters — Toronto

Stock Exchange Listing of Class "B" Shares

Toronto Stock Exchange

Head Office

671 Warden Ave. — Scarborough, Ontario, Canada